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C O N F I D E N T I A L SECTION 01 OF 02 DAMASCUS 000865

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TAGS: [EPET](#) [PREL](#) [SY](#)
SUBJECT: SARG ECONOMIC INTEREST IN IRAQ

REF: A. 05 DAMASCUS 6389
[1](#)B. STATE 51180
[1](#)C. 06 DAMASCUS 4161
[1](#)D. DAMASCUS 762
[1](#)E. DAMASCUS 403

Classified By: CDA Michael H. Corbin for reasons 1.5 b/d

[1](#)1. (C) Summary. It is still open to debate how much Syria is benefiting from improved relations with Iraq as the pluses of increased transit revenues, investment, and trade are off-set by the costs of hosting an ever-growing number of Iraqis. Still, an increasing number of Syrians are focusing on the potential future economic benefits from increased collaboration. Items most often cited as significant Iraqi economic carrots include: reopening the Kirkuk to Banyas oil pipeline, a natural gas joint venture in the Iraqi Akkas field, and cash payments to defer the Syrian costs of hosting 1.2 million Iraqis. Today, Syria is benefiting from a trade boom with Iraq which is helping to erase what two years ago was a significant trade deficit. Syrian ports are operating above capacity with ambitious plans for expansion thanks in large part to trans-shipments to Iraq. Exports to Iraq are also contributing to the expansion of Syria's industrial sector with manufacturers in everything from refined sugar to ready-made garments (RMG) expanding existing facilities or building new factories with an eye on the Iraqi market. End summary.

[1](#)2. (C) Over the last two years, Syrians have increasingly focused on the potential economic benefits the country could gain through greater cooperation with Iraq. Many of our interlocutors, primarily in the business community, have asserted that the potential benefits are an important economic incentive for greater SARG cooperation with the GOI. Most point to Syria's falling oil production and consequent revenue loss as motivating factors in the SARG seeking transit revenues as an export corridor for Iraqi oil and gas. In 2005, the SARG pursued signing an MOU to include Iraq in the Arab gas pipeline currently under construction in Syria (ref A). Although no further collaboration materialized, contacts in the gas sector, both public and private, assert that the medium to long-term viability of the Arab Gas Pipeline depends on future collaboration with Iraq. (Note: The pipeline's connection with Turkey, and thereby to Europe, is scheduled to be completed by mid-2008. End Note.)

[1](#)3. (C) Last year, managers at Royal Dutch Shell presented a plan to SARG officials (and subsequently to the Iraqis) to export natural gas from the Akkas field, (near Iraq's border

with Syria) through Syria to either the Arab Gas Pipeline or a USD 1.2 billion LNG facility to be constructed in Syria's oil port of Banyas (ref B, C). Shell managers continue to promote the idea and view it as potentially highly lucrative.

As Shell country manager Campbell Kier pointed out to us, natural gas wells are already drilled and capped in Akkas. Since Syria has existing infrastructure and significant spare capacity in the gas processing plant built by Conoco-Phillips in the eastern Syrian governate of Deir Zor, it would only require a minimum investment to begin bringing significant amounts of Iraqi natural gas to market. Given the fact that Syria has begun suffering chronic power shortages, and over half of its power plants still burn comparatively expensive fuel oil (ref D), it is easy to understand why the SARG is showing increasing interest in Shell's proposal for developing Akkas.

¶4. (C) The SARG is also increasingly vocal in expressing its interest in reopening the Kirkuk to Banyas oil pipeline. Mahdi Sejjad, VP for Gulfsands Petroleum who has close contacts with regime figures here in Damascus and claims equally good contact with key Iraqi players in Baghdad, commented to us that the SARG has long requested the GOI start sending 110,000 bpd of crude through the pipeline. (Note. Even though the pipeline in theory has a 1.5 million bpd capacity, given its current age and state of disrepair, local contacts in the industry doubt its capacity is much more than the amount noted by Sejjad. End note.) As its own oil production continues to slip, regaining access to Iraqi crude becomes increasingly important for the SARG to be able to balance its books, according to Sejjad.

¶5. (C) Until recently, Syria had a significant and growing

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trade deficit which was compounded by its declining oil production. Officially, the deficit is projected to become a surplus this year thanks in part to the growing trade surplus Syria enjoys with Iraq. Businessmen in nearly every sector report increased sales to Iraq. Most sell the goods at their factory doors with the Iraqi buyer responsible for arranging transportation into Iraq. Additionally, the Syrian ports of Tartus and Lattakiya operated at 120 to 130 percent of capacity last year thanks to the lucrative trans-shipment trade into Iraq. In marked difference from two years ago, manufacturers in key industrial centers such as Homs and Aleppo, have recently shared with us their expansion plans citing the Iraqi market as heightening their expectation of future growth in Syria.

¶6. (C) Comment. The economic benefit Syria is already enjoying from its trade relationship with Iraq has the potential to grow much larger if it were to be extended to the oil and gas sector. Given the dimming of domestic opportunities and the reality of rapidly rising consumption, cooperation with Iraq is attractive to a regime that finds it increasingly difficult to make ends meet. Still, the SARG's economic woes have yet to turn acute as the economy continues to enjoy modest growth (ref E). Also, the stability of the Syria Pound and the SARG's reportedly significant hard currency reserves highlight the fact that the SARG has assets it could draw on if needed. This summer's continuing power outages, however, and rising budget deficit, highlight that Syria still has serious, chronic economic problems that push it to seek economic advantage abroad.

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